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UNITED SISCOE MINES LIMITED ANNUAL REPORT 1976



BOARD OF DIRECTORS	<p>J. G. AHERN, Q.C., Montreal, Quebec <i>Barrister and Solicitor, Partner of Ahern, De Brabant & Nuss</i></p> <p>H. DAHL-JENSEN, Unionville, Ontario <i>President, Mihorean & Dahl-Jensen, Realtors</i></p> <p>R. E. FASKEN, Mississauga, Ontario <i>Mining Executive, Chairman, United Siscoe Mines Limited</i></p> <p>H. S. HERSHORAN, Toronto, Ontario <i>Chairman, Hillcrest General Leasing Limited</i></p> <p>H. REIMER, Oakville, Ontario <i>Mining Geologist, Director of Loewen, Ondaatje, McCutcheon & Company Ltd.</i></p> <p>J. C. SAWHILL, New York, N.Y. <i>President, New York University</i></p> <p>G. T. SMITH, Toronto, Ontario <i>Barrister and Solicitor, President, Camflo Mines Limited</i></p> <p>R. M. SMITH, Oakville, Ontario <i>Mining Engineer, Vice President, Camflo Mines Limited</i></p>
OFFICERS	<p>R. E. FASKEN — <i>Chairman of the Board</i></p> <p>G. T. SMITH — <i>Vice Chairman of the Board</i></p> <p>R. M. SMITH — <i>President</i></p> <p>S. HALPERN — <i>Vice President Corporate Affairs</i></p> <p>B. K. MEIKLE — <i>Vice President Operations</i></p> <p>M. E. HOLT — <i>Vice President Exploration</i></p> <p>K. E. ELRICK — <i>Treasurer</i></p> <p>D. DOIG — <i>Secretary</i></p> <p>R. G. NEWBURY — <i>Counsel</i></p>
TRANSFER AGENTS	<p>CANADA PERMANENT TRUST COMPANY, Montreal and Toronto</p> <p>BRADFORD TRUST COMPANY</p>
AUDITORS	<p>PEAT, MARWICK, MITCHELL & CO.</p> <p>Chartered Accountants, Toronto, Ontario</p>
EXECUTIVE OFFICE	<p>Suite 3001, South Tower, P.O. Box 45</p> <p>Royal Bank Plaza</p> <p>Toronto, Canada M5J 2J1</p>
HEAD OFFICE	<p>Suite 4111, Stock Exchange Tower,</p> <p>Place Victoria, Montreal, Canada</p>
GENERAL COUNSEL	<p>J. G. AHERN, Q.C.,</p> <p>Montreal, Quebec</p>
SHARE LISTINGS	<p>THE TORONTO STOCK EXCHANGE</p> <p>MONTREAL STOCK EXCHANGE</p>
BANKERS	<p>THE CANADIAN IMPERIAL BANK OF COMMERCE,</p> <p>Toronto, Canada</p> <p>THE ROYAL BANK OF CANADA</p> <p>Toronto, Canada</p>
ANNUAL MEETING OF SHAREHOLDERS	<p>June 21, 1977, 11:00 a.m.</p> <p>Viger C, Chateau Champlain Hotel,</p> <p>Montreal, Quebec</p>

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United Siscoe Mines Limited is an investment and exploration company which is active in pursuing opportunities in the natural resources field. One of the principal mineral exploration projects underway currently involves the search for uranium in an area covering some 600,000 acres in northwestern Manitoba.

Income is generated from oil and natural gas production and dividends from investments, notably Camflo Mines Limited, one of Canada's leading gold producers.

The company's other assets include real estate holdings in Ontario and a major interest in Geothermal Kinetics Inc., a company engaged in the western United States in the search for and development of sources of geothermal steam for use in generating energy.

Directors' report to the shareholders

The major project of recent years, the activity in geothermal energy through Geothermal Kinetics Inc., has reached a stage where discussions are underway to finalize a steam purchase contract covering the Francisco property in the Geysers area of California. G.K.I., in conjunction with McCulloch Oil, has submitted an exploration and development programme to ERDA for financial backing. Preparation of documents and proposals have been completed and are now being cleared by the various government departments concerned. The company expects funding to be available by September of this year.

An important uranium exploration project has been undertaken with Camflo Mines Limited in the Kasmere Lake area of northwestern Manitoba. A more detailed description of the project is included in this report. Early drilling results have been encouraging considering the preliminary stage of this long-term programme.

Financial

The enclosed financial statements show a net loss of \$1,007,775, before an extraordinary item of \$180,000, for the year ended December 31, 1976, equal to 22¢ per share, compared with a net loss of \$246,946 or 5¢ a share in 1975 before an extraordinary net gain of \$1.9 million.

Two significant changes have occurred in the investment portfolio. The interest in Camflo Mines Limited was 552,000 shares at December 31, 1976. Following the year end this was increased to 634,000 shares. Also, subsequent to the year end, the interest in Merland Explorations Limited was sold at a substantial profit.

Total market value of investments at year end, including Merland, was \$7.5 million compared with \$7 million at end of the previous year.

This report includes a chart presentation of the principal interests and activities of the Company.

The following is a report on the status of these interests and developments in each.

Geothermal Kinetics Inc.

United Siscoe Mines Limited and its subsidiary Chesbar Resources Inc. now hold a 70% interest in Geothermal Kinetics Inc., which has been active in the development of geothermal resources for utilization in power generation. G.K.I. has interests in a number of projects, the status of which are given below.

Francisco Property Geysers Area

Two commercial wells have been completed on this acreage in which G.K.I. retains a 30% carried interest. Although numerous mechanical problems were experienced in completing the second well and a significant length of drill pipe could not be recovered from the hole, the well can be utilized as a commercial producer. As a result of these two successful wells the entire 380 acres has been designated as a commercial reservoir by the reservoir engineers who consult for the major utility in the area.

G.K.I. and McCulloch Oil are now in serious discussion with two utilities concerning the construction of a 55,000 KW generating plant to utilize the steam production from this property.

Newfield Prospect — Geysers Area

This 560 acre prospect is scheduled for drilling within the next few months. The "B" Partnership of the McCulloch Geothermal Energy Programme II will close May 31, 1977 and a portion of the funds raised will be utilized on this project. Environmental clearances have been obtained and the drilling permits are expected to be granted within the next two weeks. The property, in which G.K.I. will retain a 30% carried interest, is located northeast of the Francisco acreage.

Mt. Seigler Prospect — Geysers Area

Some 700 contiguous acres are included in this prospect. If the funds raised by the "B" Partnership of the McCulloch Geothermal Energy Programme II are sufficient a well is planned for this prospect in the north Geysers area. Scheduling of this well is set tentatively for August of this year and G.K.I. will retain a 30% carried interest in the property.

Rorabaugh Property

Union Oil Company of California has appealed the decision rendered by the Superior Court of California, County of Sonoma which awarded G.K.I. the geothermal rights on this 408 acre property.

Union has filed its Appeal Brief and G.K.I.'s Brief will be filed shortly. Union has twenty days to respond. Assuming no extensions, Union's Brief will be due in mid-June. Normally, the District Court of Appeal would take at least four to six months until a hearing is scheduled and a decision is rendered. However, G.K.I. intends to file a Motion to Advance the hearing of the Appeal. Depending upon the success of this motion, the Company's lawyers are hopeful that an appeal decision would be granted early this fall.

Assuming the Court of Appeal upholds the Superior Court of California, it appears unlikely that Union would petition for a hearing in the California Supreme Court or that the Supreme Court would grant a hearing.

The Company is thus hopeful that full-scale commercial development of this strategic property can commence in the early Fall.

Boggs Mountain Prospect — California

The Environmental Impact Statement covering this 3,500 acre prospect held directly by G.K.I. has now been cleared and accepted by the various State Departments concerned. Barring unforeseen delays, formal granting of a permit is expected within the next few months, which would permit exploratory drilling to commence soon thereafter. This property appears to be strategically located and should be an intriguing drill prospect.

Chandler Area — Arizona

As a result of recent developments both in geophysical exploration and medium temperature (325°-350°F) power generation, additional work was undertaken in this area. The results of this work are being studied with a view to drilling at least one additional well on the project.

G.K.I. — McCulloch Joint Venture

This project continued on an active basis during the past year and culminated with a joint submission to ERDA for a Geothermal Energy Project Loan called the Cu I Venture. Total funds requested amounted to \$6,326,000 for the purpose of drilling four exploratory and confirmation geothermal wells at Brawley, California and Lund and Beryl in Utah.

The documentation covering this Joint Venture Project is now being reviewed by the various government agencies involved and hopefully funding will be granted by September of the current year.

Although G.K.I. and McCulloch have recently terminated their main joint venture agreement both parties will continue to participate in the ERDA Cu I Venture, and possibly other joint ventures.

Geothermal Energy Overview

There is now little doubt that geothermal energy is becoming recognized as an efficient and viable source of electrical power production as evidenced by recent expressions of the Carter Energy Administration. The new Administration is sympathetic to the rapid development of geothermal energy and will provide both development funds and tax relief to those companies and individuals investing in the future of this resource, which can play a significant role in helping the U.S. become more self-sufficient in energy.

With these factors in mind, G.K.I. is presently discussing a new joint venture project to permit its exploration and development programme to continue on an expanded basis.

Siscalta Oils Limited

United Siscoe's oil and gas operations in Alberta are carried out through this subsidiary company. During 1976 net operating income was \$366,644 compared with \$734,855 in 1975, a year which included \$392,000 received from the company's interest in the Bantry area of Alberta, which was sold in December 1975.

As a result of recent price increases, natural gas revenue is expected to increase during 1977.

An independent engineering report has just been completed showing the Company's share of gross proven and probable reserves to be 28,000 barrels of oil and 9 billion cubic feet of natural gas.

Camflo Mines Limited

The Company now holds an 18.4% interest in Camflo Mines Limited, one of Canada's leading gold producers, an increase from 16% at the end of 1975. In 1976, Camflo's net income was \$2 million, equal to 60¢ a share, down from \$3.7 million or \$1.10 a share in the previous year. The reduction in earnings was caused mainly by the low average price received for gold during the year — \$122 an ounce, compared with \$155 in 1975.

As a result of improved gold prices Camflo's earnings increased to \$1,022,830 in the first quarter of this year, equal to 30¢ a share, up from \$599,995 or 17¢ a share in the first quarter of 1976.

Camflo continued to pay regular dividends for the tenth consecutive year. In 1976 the amount of the dividend was 40¢ per share. The millionth ounce of gold was produced during the year.

Camflo's income from oil and natural gas is rising sharply and the company is participating in exploration and development projects in both Canada and the United States. Income from oil and gas in the first quarter of 1977 was more than half of revenue from this source for the whole of 1976. A significant sweet gas discovery has been made in east Texas in a joint venture exploration programme operated by Orbit Oil & Gas Inc., part of a \$9 million, two-year project in which Camflo has a 15% interest.

Through a 49% interest in La Luz Mines Limited, Camflo participates in three thermal coal strip-mines in Ohio. Severe winter weather which interrupted regular barge shipments from one mine together with a mechanical failure at one of the major generating units supplied by the other two mines were the principal factors in first quarter losses. Shipments of coal are now on the increase and if wildcat strikes are kept at a minimum, the joint venture should be operating on a profitable basis by the third or fourth quarter of this year.

Camflo is an equal partner with United Siscoe in the Kasmere Lake uranium exploration programme in northwestern Manitoba. This is the largest mineral exploration venture yet carried out by Camflo. A detailed description of this project is included later in this report.

Camflo's emphasis on energy resources in gas, coal and uranium, funded from its gold operations should prove most rewarding for the long-term. Recent important policy statements in the United States and Canada are laying the base to encourage the development and use of North American energy sources.

Chesbar, Resources Inc.

United Siscoe Mines has a 56% equity interest in Chesbar, Resources Inc. and holds a \$1.2 million debenture. Chesbar owns 451,812 shares of Geothermal Kinetics Inc., or an 11.7% interest. The proposed exchange of shares of United Siscoe for the shares of Geothermal Kinetics Inc. held by Chesbar, outlined in last year's Annual Report and subsequently amended at the Annual Meeting, did not proceed as various U.S. and Canadian tax and securities rulings were not obtained by the expiry date.

Chesbar has extended the lease-purchase agreement on its Niagara Falls, Ontario, iron reduction plant for \$1.7 million. To-date Allis-Chalmers Canada Ltd. has paid \$770,000, and will pay \$60,000 annually for the next seven years. Under the terms of the agreement Allis-Chalmers has the option to purchase the plant for the above price less all rents received and the proceeds of the sale of any surplus equipment.

The iron mine and concentrator located near Miquelon, Quebec have not yet been disposed of.

Mining Exploration

The Joint Venture Kasmere Lake uranium project is currently the principal active mineral exploration interest of the Company. The province of Manitoba has a 50% participation and the remaining half-

interest is shared with Camflo Mines Limited. A detailed description of this project is contained later in this report.

The rise in the price of gold this year has prompted further examination of the Pinson gold property in northern Nevada. United Siscoe has a 20% interest in this potential open pit operation which is estimated to contain 1.75 million tons grading 0.152 ounces of gold per ton after allowing for 10% dilution. There are indications that the tonnage of higher grade material may be increased.

A Joint Venture on a copper property in New Brunswick is showing some promise as the third phase of exploration starts. Some \$350,000 is expected to be expended by the participants on this property by the end of this year.

Other Assets

Through wholly-owned Siscoe Metals of Ontario, United Siscoe holds as an investment land in the Brampton area of Ontario. An agreement was concluded with Kraft Foods Limited whereby 96 acres of the 250 acres was sold to Kraft for Kraft's interest in another 96-acre property in the same area on which notice of intention to expropriate for a transmission line had been received. This property was sold by Kraft to the Ontario Government and as a result the company has received to date \$2.3 million.

However, the company and Kraft have made application to the Land Compensation Board of Ontario for additional consideration for this sale.

General

Decisions by the United States government's Energy Research and Development Administration should clear the way for increased drilling of potential geothermal reservoirs resulting in a major acceleration of activity by Geothermal Kinetics Inc. A number of projects await these approvals and the accompanying government funding.

Further increases in revenue can be expected from oil and gas as a result of Canadian government policies providing for continuing increases in prices towards world oil levels.

Results from the accelerated activity on the Kasmere Lake uranium project will be reported during the remainder of the year.

On behalf of the Board of Directors.

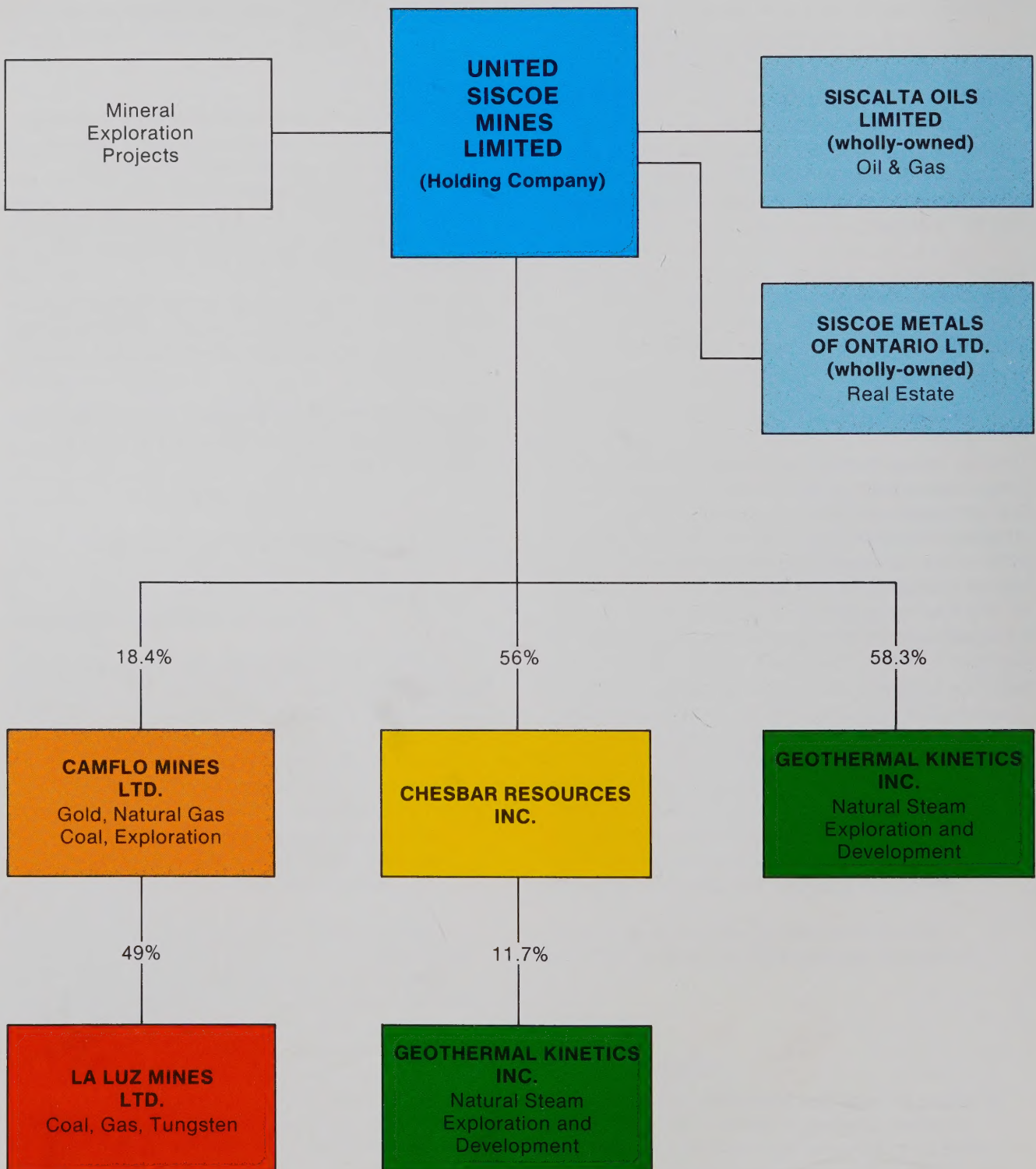
" R. E. FASKEN" — Chairman

"G. T. SMITH" — Vice-chairman

May 25, 1977

UNITED SISCOE

Principal Activities and Interests



The Kasmere Lake Uranium Exploration Project

The Kasmere Lake uranium project is a large-scale search for uranium undertaken by United Siscoe Mines Limited and Camflo Mines Limited in partnership with the Manitoba government.

Rising world requirements for uranium as a source of nuclear energy and the geological attractiveness of the Wollaston Lake Fold Belt were key factors leading to the selection of the Kasmere Lake area.

The geological structure, the "Wollaston Lake Fold Belt", has been the site of the discovery of a number of major uranium deposits in northern Saskatchewan. The portion of this belt located in northwestern Manitoba had had only relatively cursory exploration when Siscoe and Camflo management assembled a small exploration crew to carry out prospecting on the ground in the Spring of 1976. The area is about 600 miles north of Winnipeg and 90 miles northeast of the Rabbit Lake, Saskatchewan uranium discoveries. Kasmere Lake is the most prominent geographic feature and gave its name to the continuing and expanding exploration project.

Early exploration was chiefly guided and complemented by recent Government mapping, and the Geological Survey of Canada's airborne radiometric and ground geochemical surveys. The main emphasis was placed on the aero-radiometric anomalies. Staking of some anomalies followed the release of data by the Geological Survey of Canada and covered a total of 21 square miles of claims. Subsequently, an additional 16 square miles were staked for further protection.

In this northern area of the Precambrian Shield about 98% of the ground is covered by glacial debris and water. Although little bedrock is exposed, rocks are plentiful in the form of abundant boulder fields. These boulder fields provided the opportunity to seek evidence of uranium mineralization.

The United Siscoe-Camflo prospectors discovered four specific areas of significant uranium mineralization by the end of September. While most of this uranium occurred in boulders, several radioactive outcrops were also found. Numerous representative and selected samples were collected from each of four areas and assays varied between 0.055% to 3.92% U_3O_8 (1.1 to 78.4 pounds per ton). A sample of massive pitchblende was found in one locality. Molybdenite, in addition to other sulphides, frequently occurred with the uranium. Generally, the boulders do not appear to have been displaced very far from their origin by glacial movement. This should simplify the task of locating the source of the mineralization.

Because of this encouragement, exploration was extended through the winter. Additional ground to explore was acquired under a new Manitoba permit system. Seven permits were obtained covering a total of about 600,000 acres.

Coincident with the 1976 field work, a large Geological Survey of Canada crew, stationed in the same area, completed further airborne surveys at one kilometer spacings. They also performed localized detailed flying and ground follow-up work consisting of geochemical surveys and geological observations. The results of this work that fell within the boundaries of the new permit areas and the original staking were made available to the Joint Venture. The more detailed air surveys not only indicated a number of strong anomalous conditions but partially confirmed the significance of the ground discoveries.

Lodgement till sampling has proven an effective means of locating bedrock uranium mineralization along other parts of the Wollaston Lake Fold Belt in Saskatchewan. Similar techniques and equipment were applied to one of the four areas at Kasmere Lake. Drilling to sample the till started before Christmas and was carried out on a regular grid pattern starting in the vicinity of the radioactive boulders and progressing "up-ice". This programme defined an area of about 3,500 feet by 800 feet where highly anomalous values of uranium occurred in the basal or lodgement till. Detailed and regional geophysical surveys were also completed along the same grid system. These aided in delineation of possible structural traps in the vicinity of the "till" anomalies and mineralized boulders.



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A major exploration programme for the 1977 field season has now been organized. A large centralized base camp has been constructed for a field contingent of about 35 personnel. Arrangements have been completed for full time helicopter and fixed wing air support, a field laboratory and two diamond drills. Basic supplies, such as gasoline and additional bush equipment, have also been stored at the main camp.

This accelerated phase of exploration for uranium in the Kasmere Lake area is based on minimum expenditures of \$1 million annually for the next two years.

The present diamond drilling programme, which proceeded through to breakup on one of the number of areas where uranium mineralization had been discovered in boulders during the summer, has detected a uranium and molybdenum zone along a strike length of about 900 feet. This zone is open along strike and uranium was intersected in five of eight diamond drill holes with a continuous improvement in grade. The eighth hole intersected a twenty inch section which assayed 10.2 pounds of U_3O_8 and 1.15% Mo at a vertical depth of approximately 450 feet.

Uranium Exploration in Manitoba

1. The drill camp is serviced by a Twin Otter from Lynn Lake.
2. Diamond drilling for uranium on the Suc Lake claims in northern Manitoba.
3. R. Brown, geologist, and M. E. Holt, Vice-President of Exploration, use a scintillometer to check some of the drill core.
4. Steve Bortnick, geophysical contractor.

Photography by George Hunter

Consolidated Balance Sheet

December 31, 1976

with comparative figures for 1975

Assets	1976	1975
Cash.....	\$ 130,933	\$ 283,613
Accounts receivable	745,029	936,003
Note receivable, interest bearing	—	600,000
Prepaid expenses	32,119	26,834
Notes receivable from officers of a subsidiary company, including accrued interest.....	182,288	167,388
Investments, at lower of cost and market (quoted market 1976 — \$7,527,000; 1975 — \$7,033,000) (note 2)	3,326,001	3,451,078
Cost of land sold in excess of proceeds received to date (note 3)	506,616	—
Land held for resale (note 4)	3,858,528	6,149,192
Special term deposit (note 10)	1,191,232	—
Fixed assets (note 5)	82,218	500,134
Fixed assets held for sale (note 6)	2,529,338	2,259,751
Interest in petroleum and natural gas properties	85,538	91,096
Deferred geothermal exploration and development costs (note 7)	7,065,340	5,603,533
Deferred mineral exploration and development costs	423,465	414,094
Unamortized debenture issue expenses	71,692	104,780
	<u>\$ 20,230,337</u>	<u>\$ 20,587,496</u>

See accompanying notes to consolidated financial statements.

UNITED SISCOE MINES LIMITED

and subsidiary companies

Liabilities and Shareholders' Equity	1976	1975
Bank advances, secured (note 8)	\$ 2,625,000	\$ 2,100,000
Accounts payable and accrued expenses	1,635,561	748,486
Income and other taxes payable (note 9)	38,478	22,696
Long-term debt (note 10)	3,641,232	4,311,544
Deferred income (note 11)	200,000	200,000
Minority interest in subsidiary companies	2,073,390	2,053,464
Shareholders' equity:		
Capital stock (note 12):		
Authorized — 7,500,000 shares without par value.		
Issued and fully paid — 4,657,250 (1975 — 4,648,750) shares	10,114,902	10,061,777
Retained earnings (Deficit)	(98,226)	1,089,529
Shareholders' Equity	<u>10,016,676</u>	<u>11,151,306</u>
Commitment (Note 14)		
	<u>\$ 20,230,337</u>	<u>\$ 20,587,496</u>

On behalf of the Board:

"R. E. FASKEN", Director

"R. M. SMITH", Director

Consolidated Statement of Income and Loss

Year ended December 31, 1976 with comparative figures for 1975

	1976	1975
Oil and gas income:		
Share of net operating income	\$ 366,644	\$ 734,855
Depreciation and depletion	6,009	118,921
	<u>360,635</u>	<u>615,934</u>
Dividend income	245,580	268,578
	<u>606,215</u>	<u>884,512</u>
Loss (gain) on investments, net (after making provision for valuation of investments held)	240,764	(223,374)
Interest on long-term debt and amortization of debenture issue expenses — net of amounts capitalized	285,006	220,999
Other interest, net	108,071	355,562
Administrative and general expenses	852,839	663,976
Mineral exploration expenses	118,116	115,660
Other income, net	(50,000)	(75,290)
	<u>1,554,796</u>	<u>1,057,533</u>
Net loss before income taxes payable, minority interest and extraordinary items	(948,581)	(173,021)
Income taxes payable (note 9)	120,400	103,000
Net loss before minority interest and extraordinary items	(1,068,981)	(276,021)
Minority interest in loss of subsidiary company	61,226	29,075
Net loss before extraordinary items	(1,007,755)	(246,946)
Extraordinary items:		
Gain on sale of interest in petroleum and natural gas properties, net of income taxes of \$255,000	—	1,676,952
Reduction of income taxes applicable to extraordinary items by the application of prior years' losses	—	255,000
Provision for judgement awarded on legal action (note 13)	(180,000)	—
	<u>(180,000)</u>	<u>1,931,952</u>
Net income (loss) for the year	<u>\$ (1,187,755)</u>	<u>\$ 1,685,006</u>
NET INCOME (LOSS) PER SHARE:		
Net (loss) before extraordinary items	\$ (.22)	\$ (.05)
Net income (loss) for the year	\$ (.26)	\$.36

Consolidated Statement of Retained Earnings (Deficit)

Year ended December 31, 1976 with comparative figures for 1975

	1976	1975
Retained earnings (deficit) at beginning of year	\$ 1,089,529	\$ (595,477)
Net income (loss) for the year	(1,187,755)	1,685,006
Retained earnings (deficit) at end of year	<u>\$ (98,226)</u>	<u>\$ 1,089,529</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1976 with comparative figures for 1975

	1976	1975
CASH PROVIDED:		
Sale of land, net proceeds received to date	\$ 1,927,389	\$ —
Sale of interest in petroleum and natural gas properties, net proceeds ...	—	4,063,116
Bank advances	525,000	460,000
Issue of capital stock	53,125	—
Accounts and notes receivable and accounts payable	1,513,831	—
Other, net.....	43,205	22,881
	<u>4,062,550</u>	<u>4,545,997</u>
CASH USED:		
In operations	760,496	234,225
Investment in non-controlled companies, net of disposals	115,690	(50,795)
Carrying and development costs of land held for resale	143,341	263,513
Special term deposit	1,191,232	—
Development of petroleum and natural gas properties	450	301,454
Geothermal exploration and development deferred, net of amounts recovered	971,267	(34,404)
Mineral exploration and development deferred	29,631	164,319
Investment in subsidiary company	332,811	120,000
Repayment of long-term debt	670,312	2,287,809
Accounts and note receivable and accounts payable	—	1,110,173
	<u>4,215,230</u>	<u>4,396,294</u>
(DECREASE) INCREASE IN CASH	<u>\$ (152,680)</u>	<u>\$ 149,703</u>

See accompanying notes to consolidated financial statements.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of United Siscoe Mines Limited as at December 31, 1976 and the consolidated statements of income and loss, retained earnings (deficit) and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination of the financial statements of United Siscoe Mines Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

The company has a significant investment in geothermal resource exploration and development costs (note 7). The geothermal project is in the development stage and the costs are being deferred until it can be determined if commercial production from the various properties is economically justifiable.

The value which may be realized on the iron mine and iron pellet reduction plant cannot be determined at this time but efforts to sell them are continuing (note 6). In addition, the total consideration to be received on a land sale has not yet been determined (note 3).

In our opinion, subject to the outcome of the matters referred to in the preceding paragraphs, and according to the best of our information and the explanations given to us and as shown by the books of the company these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
May 17, 1977

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Notes to Consolidated Financial Statements

December 31, 1976

The company is incorporated under the Companies Act (Quebec) and is a public company listed on the Toronto and Montreal Stock Exchanges. The company's principal activities include exploration for mineral and geothermal resources in Canada and the United States, real estate development in Canada and investments.

1. Summary of significant accounting policies:

Principles of consolidation:

The consolidated financial statements include the accounts of the company and its subsidiary companies:

Wholly-owned subsidiaries:

Siscoe Metals of Ontario Limited
Siscalta Oils Limited

Partly-owned subsidiaries:

Geothermal Kinetics Inc. (70% interest)
Chesbar Resources, Inc. (56% interest)

The consolidated financial statements include the results of the subsidiary companies from the dates of acquisition. All material inter-company transactions have been eliminated. The accounts of Geothermal Kinetics Inc. are maintained in United States dollars and have been converted to Canadian dollars and included in these financial statements substantially at historic rates.

Land held for resale:

Carrying and development costs, which include real estate taxes and interest on debt relating to the land, are capitalized. All land costs, including carrying costs, are apportioned between land sold and land held for resale on an acreage basis.

Interest in petroleum and natural gas properties:

The cost of acquiring interests in proven and unproven petroleum and natural gas properties and the costs of wells developed have been capitalized as incurred. Depreciation and depletion of oil and gas property costs has been calculated on the basis of total production during the year as a percentage of total estimated production reserves.

Deferred geothermal exploration and development costs:

A subsidiary company, Geothermal Kinetics Inc., is in the development stage. Its primary activity is geothermal resource exploration and development, particularly with respect to geothermal steam for sale to electric utility companies for the generation of electricity. All costs, whether related to productive or non-productive prospects have been deferred. Such costs will be amortized against future revenue obtained from the total exploratory, drilling and development effort.

Deferred mineral exploration and development costs:

Expenditures on mineral exploration programs are deferred on a specific project basis until it can be determined if commercial production from the project is

economically justifiable. When a project is discontinued, the accumulated project costs are charged to income. At the time a project is developed the accumulated costs will be amortized against future income from that project.

Comparative figures:

Certain of the 1975 figures have been reclassified to conform with current classifications.

2. Investments:

	1976	1975
Camflo Mines Limited, at cost (quoted market 1976 — \$5,244,000; 1975 — \$5,451,000)	\$2,223,946	\$2,223,946
Other listed securities, at lower of cost and market (quoted market 1976 — \$2,283,000; 1975 — \$1,582,000	1,102,055	1,227,132
	<u>\$3,326,001</u>	<u>\$3,451,078</u>

The investment in shares of Camflo Mines Limited represented a holding of approximately 16% of the issued shares of that company at December 31, 1976, and since that time it has been increased to approximately 18%.

The investments have been pledged as collateral as follows:

Investments with a quoted market value at December 31, 1976 of approximately \$7,325,000 have been pledged as collateral for bank advances up to a maximum of \$2,500,000.

Subject to the prior charge related to the bank indebtedness referred to above, 500,000 shares of Camflo Mines Limited with a quoted market value of \$4,750,000 have been pledged as collateral to secure the 8% secured convertible debentures.

In March 1977, the company sold certain of the investments in non-controlled companies having a book value of \$365,000 and realized a net gain after income taxes of approximately \$971,000.

3. Cost of land sold in excess of proceeds received to date:

In August 1976, the company sold a portion of the land held for resale in consideration for \$1,927,389 cash, net of related selling expenses, together with the right of the purchaser to additional consideration which the purchaser may receive from the sale of an equal size property sold to the Government of Ontario. The cash received as above is less than the cost of the land to the company. The purchaser and the company have made application to the Land Compensation Board of Ontario for additional cash consideration under the provisions of the Expropriations Act,

Ontario. As the total consideration for this sale has not yet been determined, the transaction has not been completed and the excess of the cost of the land over the proceeds received to date is included in the balance sheet until the additional consideration, if any, is determined.

4. Land held for resale:

	1976	1975
Land at cost	\$2,411,865	\$3,955,298
Carrying and development costs, including \$143,341 capitalized in 1976 (\$263,513 in 1975) ..	1,446,663	2,193,894
	<u>\$3,858,528</u>	<u>\$6,149,192</u>

The land held for resale comprising approximately 150 acres is currently in the complimentary use area of the lands designated pursuant to the Parkway Belt Planning and Development Act. In February 1977, the Hearing Officers appointed by the Government of Ontario to receive representations respecting the contents of the proposed Parkway Belt Plan, recommended to the Government of Ontario that the property should be released from all Parkway Belt restrictions. Management plans to continue its efforts to obtain approval for suitable development of the land and it believes it will not incur a loss on disposition of the property.

5. Fixed assets:

	1976	1975
Leasehold improvements and equipment	\$ 70,357	\$ 70,357
Aircraft — one half interest	82,013	82,013
Drilling tools and equipment	—	677,857
Special research equipment	174,484	147,277
Automotive	21,446	28,144
	348,300	1,005,648
Less accumulated depreciation ..	(266,082)	(505,514)
	<u>\$ 82,218</u>	<u>\$ 500,134</u>

6. Fixed assets held for sale:

	1976	1975
Quebec iron mine — land, buildings and equipment	\$1,000,000	\$1,000,000
Niagara Falls iron pellet reduction plant — land, buildings and equipment	1,200,251	1,259,751
Drilling equipment — at net book value which exceeds amount realized in 1977	329,087	—
	<u>\$2,529,338</u>	<u>\$2,259,751</u>

The values of the Quebec iron mine and the Niagara Falls iron pellet reduction plant were established by management in 1973.

Management has decided not to resume operations at the iron mine in Quebec and plans to dispose of this property.

The company has granted, to the present tenant, an option to purchase the Niagara Falls iron pellet reduction plant for approximately \$1,700,000 less the aggregate of rent to be paid by the tenant and certain other deductions. The option may be exercised up to September 30, 1983.

7. Deferred geothermal exploration and development costs:

	1976	1975
Direct costs:		
Development of wells	\$2,974,092	\$2,449,415
Undeveloped geothermal leaseholds	2,266,945	1,942,650
Promotional and exploration expenses	4,236,970	2,320,956
	9,478,007	6,713,021
Less receipts, principally from participants in certain prospects, applied as reduction of costs	4,421,481	2,704,339
	5,056,526	4,008,682
Excess of cost of acquiring the subsidiary company over book value at dates of acquisition, allocated to the geothermal project	2,008,814	1,594,851
	<u>\$7,065,340</u>	<u>\$5,603,533</u>

Certain geothermal prospects are subject to joint venture agreements or other agreements where the ownership interest of the company is less than 100%.

The recovery of deferred costs will depend on the ability to attain profitable operations and obtain additional financing to pay liabilities as they become due. Management, at this time, cannot estimate at what date operating revenue may be realized.

The allocated excess cost of acquiring control of the subsidiary will be amortized over future anticipated revenues from the geothermal project.

Geothermal Kinetics Inc. holds possession and control of all geothermal steam power and geothermal resources in and under a 408 acre parcel of land in Sonoma County, California as sublessee from the owner of the mineral estate. Union Oil Company, as sublessee from the surface owners of the property, claimed a similar interest in the same resources. On June 1, 1976, the Superior Court of California, County of Sonoma, rendered an opinion which vested full title to these geothermal resources in Geothermal Kinetics Inc., and dismissed the claim of Union Oil Company as to any right of ownership to these resources. Union Oil Company has appealed this decision. Management and counsel for the company are of the opinion the defendant's chances of reversal on appeal of the judgement are remote.

8. Bank advances:

Bank advances are secured by the deposit with the banks of certain of the investments as described in note 2, and the shares and a debenture of the subsidiary company, Chesbar Resources, Inc.

9. Income taxes:

Income taxes payable relate to the operations of a subsidiary company.

Cumulative losses of the company and certain of its subsidiaries available for carry forward to reduce income for tax purposes in future years amount to and are restricted to fiscal years not later than:

1977	\$1,190,000
1978	769,000
1979	1,336,000
1980	1,204,000
1981	729,000
1983	954,000
	<u>\$6,182,000</u>

10. Long-term debt:

	1976	1975
8% promissory note, repayable 1976 — 1981	\$1,191,232	\$1,471,523
8% second mortgage, repayable 1977 — 1981	—	390,021
8% secured convertible debentures, maturing February 22, 1979	2,450,000	2,450,000
	<u>\$3,641,232</u>	<u>\$4,311,544</u>

The 8% promissory note is secured by a special term deposit of \$1,191,232 with the company's bankers.

The 8% secured convertible debentures are secured by a pledge of shares of Camflo Mines Limited (subject to a prior charge related to bank indebtedness not to exceed \$2,500,000), by a pledge of shares of a subsidiary company, Geothermal Kinetics Inc., and by a first floating charge on the remainder of the company's property, assets and undertakings. The debentures are redeemable at the option of the company, under certain conditions, at 104% plus accrued and unpaid interest to February 22, 1977 and reducing in progressive steps to 100% on maturity.

The debentures are convertible at the holders' option into fully paid common shares up to February 22, 1979 at a rate of \$8 per share. The conversion rate is subject to adjustment if the company should issue shares (other than those issued under the terms of the company's incentive stock option plan) prior to that date, at a lesser consideration. Under the terms of the trust indenture, the payment of dividends is prohibited.

The approximate amount of principal repayments in respect of the above obligations in each of the years 1977 and 1978 is \$280,000, in 1979 \$2,730,000, in 1980 \$280,000 and in 1981 \$71,000, of which \$280,000 annually, except \$71,000 in 1981, will be paid from the special term deposit.

11. Deferred income:

Deferred income represents the discount on a debenture of a subsidiary company which was acquired by the company in 1971, prior to the acquisition of control. This deferred income will be recorded as income if and when this debenture is repaid.

12. Capital stock:

During the year the company increased its authorized capital from 6,000,000 to 7,500,000 shares.

At December 31, 1976 185,000 common shares were reserved for issuance upon the exercise of options granted or which may be granted under the terms and conditions of the company's incentive stock option plan. Options, expiring in 1979, were outstanding at December 31, 1976 on 166,000 shares under this plan at a price of \$6.25. During 1976, options on 8,500 shares were exercised for cash consideration of \$53,125.

In accordance with the terms of the trust indenture related to the 8% secured convertible debentures an additional 306,250 common shares have been reserved for potential future conversions of the debentures.

13. Legal action:

The company was unsuccessful in its appeal of a judgement against the company in respect of an action instituted by a consulting geologist who was formerly associated with the company and accordingly provision has been made in the accounts in 1976 for this judgement including court costs. This action claimed damages pursuant to an alleged option to purchase shares of the company.

14. Commitment:

At December 31, 1976 the unfunded actuarial present value of past service benefits in respect of the company's pension plan for its employees amounted to approximately \$98,000 based on actuarial assumptions adopted by the company. It is anticipated that the unfunded amount will be liquidated and charged to income in 15 equal annual instalments of \$10,500.

15. Remuneration of directors and senior officers:

The aggregate direct remuneration paid in 1976 to the directors and senior officers of the company was \$235,000 (1975 — \$225,000).

United Siscoe Mines Ltd.

Interim Report to Shareholders for the Six Months Ended June 30th, 1976

Consolidated Statement of Changes in Financial Position (unaudited)

Six months ended June 30, 1976
with comparative figures for 1975

	1976	1975
Funds provided:		
Amounts due from sales of land, net	\$ —	173,062
Disposals of fixed assets	19,381	63,250
Long-term bank loan received	—	750,000
Issue of capital stock, net proceeds	46,875	—
Total funds provided	66,256	986,312
Funds used:		
Funds used in operations	250,982	57,506
Investment in subsidiary companies	146,724	—
Carrying and development costs on land held for resale	120,772	133,992
Development of petroleum and natural gas properties	—	226,632
Geothermal exploration and development deferred, net of amounts recovered	137,511	31,101
Mineral exploration and development deferred	38,533	36,994
Purchase of fixed assets	—	14,507
Reduction of long-term debt	176,896	211,294
Advances to officers of a subsidiary company	—	4,120
Investment in non-controlled companies, net of proceeds of disposal	23,592	9,933
Total funds used	895,010	726,079
Decrease (increase) in working capital deficiency	(828,754)	260,233
Working capital deficiency at beginning of year	1,378,522	2,916,332
Working capital deficiency at end of year	\$2,207,276	2,656,099

Executive office:

Suite 1806, Commercial Union Tower, P.O. Box 306
Toronto-Dominion Centre, Toronto, Canada M5K 1K2

UNITED SISCOE MINES LIMITED

To the Shareholders:

The unaudited consolidated financial statements for the first six months reflect the sale late in 1975 of the company's interests in the Bantary gas field. As a result, on a comparative basis with the first half last year, oil and gas income was reduced. The reduction is not as great as would otherwise be expected since revenue of the wholly-owned subsidiary, Siscalta Oil, increased significantly. Lower income overall and a loss on sale of investments contrasting with a profit on such sales in the previous comparable period resulted in the net loss of \$400,826.

GEOHERMAL KINETICS INC.

The company's principal activity is through Geothermal Kinetics Inc. Expansion of drilling programmes appear likely with participation of the U.S. Government Energy Resources Development Agency now possible. Three submissions are being prepared requesting ERDA assistance to fund drilling programmes. The encouragement of financial support from a U.S. government agency indicates the importance now being placed on the development of geothermal energy.

Applications to ERDA are planned for the following projects:

Beryl Prospect: Utah

The proposal being submitted will request funds to drill a well south of a major fault running through the property. An initial well was drilled to the north of this structure and has established the presence of geothermal resources in an area where no indication of steam was previously evident. The discovery well probed to a total depth of 11,100 feet. Due to an inflow of cooler fresh water, the zone below 8,250' has been sealed off with a plug. The potential of the upper zone reported previously to have indicated a flow of 500,000 pounds of fluid per hour with some flashing into steam is still being assessed. Knowledge gained in drilling this initial wildcat well underpins the application for ERDA funds for one additional well followed by a second, should commercial potential be indicated.

South Brawley Prospect, Imperial Valley: California

Application has been made for a drilling permit and a submission is being made to ERDA for funds to cover the cost of drilling two wells, the second well subject to a successful initial hole.

Alexander Valley Prospect, South Geysers Area: California

Surface exploration has been carried out and the plan is to make a similar two-well drilling proposal to ERDA after all reports and preliminary work are completed.

These three projects are joint ventures with McCulloch Oil. Other drilling activities are being planned by the Joint Venture with McCulloch Oil proposing to raise a \$4 million Geothermal Drilling Fund. These funds, if raised in total, would finance drilling of two confirmation wells extending the Geysers area discovery made by the GKI-McCulloch Francisco #1; drilling of a wildcat well on the Newfield acreage northwest of the Francisco acreage in the North Geysers area; and a wildcat on the Avonlund prospect north of the Beryl acreage in Utah.

Geothermal Kinetics Inc., on its own account, is currently carrying out negotiations which, if successful, will lead to an early recommencement of drilling on the Rorabaugh property followed by dedication of the acreage for the installation of a geothermal generating plant.

EXPLORATION

United Siscoe is participating in an interesting uranium exploration project in Northern Manitoba. This is a Joint Venture with Camflo Mines Limited. Ground surveys and geochemical testing are underway with staking continuing and activity expanding. The Government of Manitoba has indicated interest in participating in these initial programmes to the extent of 50% as set out in provincial legislation.

On behalf of the Board of Directors,

R. E. Fasken
Chairman

G. T. Smith
Vice-Chairman

UNITED SISCOE MINES LIMITED AND SUBSIDIARY COMPANIES

Consolidated Statement of Income and Loss (unaudited)

Six months ended June 30, 1976
with comparative figures for 1975

	1976	1975
Oil and gas income:		
Share of net operating income	\$ 202,512	367,532
Depreciation and depletion	7,643	76,272
Dividend income	194,869	291,260
Loss (gain) on investments, net (after making provision for valuation of investments held)	126,911	158,154
Interest on long-term debt and amortization of debenture issue expenses — net of amounts capitalized	142,146	(235,154)
Other interest, net	205,308	306,565
Administrative and general expenses	(40,202)	(8,964)
Mineral exploration expenses	371,700	330,361
Other income, net	9,781	7,513
Net income (loss) before income taxes payable, minority interest and extraordinary items	688,733	400,321
Income taxes payable	(366,953)	49,093
Net loss before minority interest and extraordinary items	56,500	50,000
Minority interest in loss of subsidiary company	423,453	907
Net income (loss) for the period	22,627	3,422
Net income (loss) per share for the period	\$ (400,826)	2,515
	(\$.09)	\$.00